

Message Text

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SUBJECT: RAILROAD TARIFF RATE INCREASES

REF: (A) LA PAZ 49

SUMMARY. ALTHOUGH THE GOB WAS UNWILLING TO ENACT PORTIONS OF ITS "SO-CALLED" ECONOMIC PACKAGE, CERTAIN PORTIONS OF IT WERE PUT IN PLACE SEPARATELY AND WITHOUT MUCH FANFARE. (SEE REF A.) ATTEMPTING TO REDUCE THE CALL ON TREASURY RESOURCES, THE GOB PERMITTED THE STATE RAILROAD (ENFE) TO INCREASE TARIFFS BY VARYING AMOUNTS ON MOST OF ITS TRAFFIC INCOMEN WHILE REDUCING SOMEWHAT ITS EXPENDITURE ITEMS. ASIDE FROM THE REDUCTION IN CALLS ON TREASURY RESOURCES, THESE INCREASES SHOULD PERMIT ENFE TO GENERATE THE NECESSARY INVESTMENT RESOURCES TO OBTAIN FURTHER WORLD BANK FINANCING FOR THE SYSTEM AS WELL AS MEET A LIMITED NUMBER OF OTHER INVESTMENT REQUIREMENTS. END OF SUMMARY

1) THE RATE INCREASES VARIED BY COMMODITY GROUPING AND WAGON LOADINGS WITH MINERALS SUBJECT TO FLAT INCREASE OF 68 PER-CENT, GENERAL CARGO WAS INCREASED BETWEEN 53 PER-CENT AND 145 PERCENT, DEPENDING ON WHETHER WAGONS WERE COMPLETELY LOADED OR NOT WITH HIGHEST INCREMENT RELATED TO FULL LOADINGS. PASSENGER RATES WERE UNALTERED.

2) ENFE INCOME BY TRAFFIC CATEGORIES (BASED ON MOST RECENT DATA) WAS HEAVILY DEPENDENT ON GENERAL CARGO-- ABOUT 61 PERCENT OF ITS REVENUES, WHILE MINERALS WERE 16 PER CENT AND THE REMAINING UNCLASSIFIED

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23 PER CENT WAS PRINCIPALLY PASSENGER REVENUE. MOREOVER,

ABOUT 98 PERCENT OF THE GENERAL CARGO CATEGORY WAS CARRIED ON FULL WAGONS AND IS SUBJECT TO NEW 145 TARIFF INCREMENT. BASED ON ABOVE INFO, IT APPEARS THAT THE WEIGHTED AVERAGE INCREASE IN TARIFFS WAS ABOUT 105 PERCENT INCLUDING PASSENGER TARIFFS AND ABOUT 115 PERCENT EXCLUDING PASSENGER TARIFFS. REVENUE SHOULD APPROXIMATE \$B 850 MILLION IN 1975 COMPARED TO AN ESTIMATED \$B 350 - 400 MILLION IN 1974 AND COMPLETELY ELIMINATE TREASURY TRANSFERS OF ABOUT \$B250 MILLION PER ANNUM (ESTIMATE FOR 1975). MOREOVER, ENFE SHOULD HAVE AN INVESTIBLE SURPLUS OF ABOUT \$B 300 MILLION IN 1975.

3. MEDICAL AND COMMISSARY EXPENDITURES WERE REDUCED SOMEWHAT BY TRANSFERRING MEDICAL EXPENDITURES TO THE SOCIAL SECURITY SYSTEM AND SUPPRESSING COMMISSARY PRIVILEGES FOR ADMINISTRATIVE PERSONNEL OF ENFE. IT APPEARS, HOWEVER, THAT A \$B 500 PESO BONUS WILL BE GIVEN ADMINISTRATIVE PERSONNEL TO OFFSET LOSS OF COMMISSARY PRIVILEGES. THESE TWO ITEMS REPRESENTED ABOUT 10 PERCENT OF TOTAL ENFE EXPENDITURES IN 1973 (MOST RECENT DATA). THE MISSION ESTIMATES THAT ONLY A SMALL ACTUAL NET SAVINGS WILL BE MADE DUE TO THE PROSPECTIVE OFFSETTING BONUS AND CONTINUED MAINTENANCE OF CERTAIN MEDICAL FACILITIES WHERE THE SOCIAL SECURITY SYSTEM PRESENTLY HAS NO FACILITIES. FROM THE TREASURY'S VIEWPOINT, THE CUTS IN ENFE EXPENDITURES WILL MOST LIKELY LEAD TO A HIGHER REQUIREMENT FOR TREASURY TRANSFERS TO THE SOCIAL SECURITY SYSTEM AND, THUS, NO SAVINGS FROM THIS SET OF EXPENDITURE DECISIONS TO THE TREASURY.

4) IBRD IN PAS YEAR AND ONE-HALF HAS BEEN PUSHING GOB TO PERMIT A RATE INCREASE THAT WOULD BE ADEQUATE TO MEET THE LOCAL CURRENCY REQUIREMENTS OF ITS PRESENT AND PROSPECTIVE LOANS AND INVESTMENT REQUIREMENTS (OUTSIDE THE LOAN) NECESSARY TO MODERNIZE THE RAIL TRANSPORT SYSTEM. WE BELIEVE THESE RATE INCREASES WILL BE MORE THAN ADEQUATE TO MEET BANK REQUIREMENTS AS WELL AS PRIORITY MODERNIZATION OBJECTIVES.

5) COMMENT. IN CONVERSATIONS WITH ENFE AND MIN PLAN OFFICIALS, IT APPEARS THAT THE MAGNITUDE OF THE RATE ADJUSTMENTS WAS NOT WELL STUDIED EITHER IN TERMS OF REVENUE POTENTIAL OR IMPACT ON THE ECONOMY. EVEN THROUGH THE NEW RAIL TARIFF RATES HAVE BEEN UNCLASSIFIED

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FIXED, THERE IS A POSSIBILITY, ACCORDING TO ENFE OFFICIAL, THAT ENFE MAY BE FORCED TO REDUCE RATES IF THE IMPACT IS FOUND TOO GREAT PARTICULARLY THE 145 PER CENT INCREASE FOR GENERAL CARGO FULL WAGON SHIPMENTS. MINING COMPANIES HAVE BEEN ESPECIALLY VOCIFEROUS IN COMPLAINING ABOUT ADVERSE IMPACT ON THEIR EXPORTS OF MINERAL CONCENTRATES.
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